

AR45

CONSOLIDATED
RAMBLER
MINES
LIMITED

ANNUAL
REPORT

FOR THE YEAR ENDED
DECEMBER 31

1977

CONSOLIDATED RAMBLER MINES LIMITED

Incorporated under the laws of Ontario on January 20, 1961

DIRECTORS

A. G. KIRKLAND Saint John, New Brunswick
K. R. LAVOY, JR. New York, U.S.A.
D. A. MACFARLANE Saint John, New Brunswick
G. F. PUSHIE St. John's, Newfoundland
L. MCC. RITCHIE Saint John, New Brunswick
C. K. WELLS Cornerbrook, Newfoundland

OFFICERS

L. MCC. RITCHIE *President*
A. G. KIRKLAND *Vice-President*
D. A. MACFARLANE *Secretary and Treasurer*
MRS. M. JONES *Assistant Secretary*

EXECUTIVE OFFICE

FIFTH FLOOR, GOLDEN BALL BLDG. Saint John, N.B.

MINE OFFICE

BAIE VERTE Newfoundland

AUDITORS

COOPERS & LYBRAND Saint John, N.B.

TRANSFER AGENT and REGISTRAR

GUARANTY TRUST COMPANY OF CANADA Toronto, Ontario

ANNUAL MEETING

March 29, 1978 — 2:30 p.m. (Toronto Time)
SASKATCHEWAN ROOM, ROYAL YORK HOTEL, Toronto, Ontario

DIRECTORS' REPORT

To the Shareholders

Earnings for 1977 were \$51,808 (2c per share) compared with a loss of \$95,644 (3c per share) in 1976. On average, copper prices remained relatively unchanged from the year 1976 but gold and silver prices increased 24% and 13% respectively. Offsetting this in part, however, were increases in smelting charges of approximately 10% and refining charges of 12%. It is interesting to note that smelting and refining charges payable by your Corporation have more than doubled between the years 1971 and 1977. One shipment of concentrate was made overseas, the balance went to the Gaspé smelter of Noranda Mines Limited. Copper contained in concentrate unpaid for at December 31, 1977 has been priced at 61c per lb. compared with 60c in 1976.

As already announced, the Corporation began the year 1977 on a very reduced operating schedule with its mill operating on a one shift per day, five days a week basis. This continued for the first two months of 1977, after which full operations, i.e., three shifts of milling per day, five days a week, were resumed. As a result, approximately 240,000 tons of ore were milled in 1977 compared with 206,000 tons in 1976, an increase of about 16%.

During 1977, approximately 43% of the ore was mined from the Ming Extension compared with only 18% in the previous year. About 38,000 tons of concentrate was produced in 1977 compared with 31,000 tons in 1976, an increase of 22%. Not only was there an increase in the tonnage of concentrate produced in 1977, but due to research and improvements in both equipment and methods used in our concentrator, the grade of copper in concentrate was increased from an average of 21% in the first quarter to over 26% in the last quarter of the year. At year end, approximately 39,000 tons of concentrate had been produced but not paid for compared with approximately 33,000 at the end of 1976.

Operating costs in total increased in 1977 by about 16% from \$4,845,000 in 1976 to \$5,627,000. On the basis of tons ore milled, however, costs were fractionally lower in the 1977 year. On the basis of net pounds of copper contained in concentrate, direct operating costs were down in 1977 by about 9%.

The Mine Manager's report which follows gives details of the Corporation's ore reserves which, at year end, totalled 493,000 tons. Should operations continue at current levels, these reserves would be mined in the years 1978 and 1979. Future operations would then depend upon the discovery of additional ore on our mining property or in achieving success in an outside exploration program. Both of these alternatives will be affected by metal prices, capital and operating costs and other economic factors present at the time.

As can be seen in the attached statements, the Corporation's financial position improved by approximately \$1,082,000 during 1977. This was achieved not only by close control of operating costs but also by limiting the Corporation's exploration programs and keeping fixed asset additions to only those items essential for production.

In July, 1977, the main ore bin in the mill collapsed, necessitating an expenditure of \$67,000 to replace it. Other expenditures to improve the mill circuit and tailings dam were completed at a cost of approximately \$175,000. Close control over capital expenditures will continue in 1978.

A further item requiring cash payments in 1977 and future years is the mortgage on the Corporation's mining property. To December 31, 1977, payments of principal totalling \$3,764,000 had been made, leaving a balance of principal outstanding at December 31, 1977 of \$1,235,000. Payments of principal and interest in 1978 will require over \$674,000.

A review of the operating results for the last three years points out clearly the difficulties for mining companies and their shareholders. Our results have been:

Loss for year ended December 31, 1975	\$(212,723)
Loss for year ended December 31, 1976	(95,644)
Profit for year ended December 31, 1977	51,808
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Total net loss	\$(256,559)

During this period, Rambler has had net assets employed in the business exceeding \$8 million. Clearly results of this kind are unsatisfactory. Unfortunately there is no certainty of increased metal prices in the foreseeable future.

A brief summary of the exploration program carried out in 1977 is contained in the Mine Manager's report.

The two collective agreements which the Corporation has with its employees terminated at the end of September, 1977 and have been re-negotiated for a one-year period. Your Directors were very proud to have our mine awarded the regional John T. Ryan Trophy for mine safety during the period ended in 1976. All our employees at the mine are to be congratulated for this achievement.

There has been no change in the Board of Directors since the last meeting of shareholders.

On behalf of the Board,

L. McC. RITCHIE, President

MINE MANAGERS REPORT

To: — Mr. A. G. Kirkland, Vice-President

Operations for the year ended December 31, 1977 are reported as follows:

TOTAL PRODUCTION	1977	1976
Ore milled — D.S.T.	240,521	206,445
Average per operating day	998	864
Grade % copper	4.25	3.68
Operating time %	91.8	89.6
Copper recovery %	89.47	94.42
Concentrates produced — D.S.T.	38,090	31,155
Contained metals — copper — pounds (net)	17,490,173	13,730,520
gold — ounces (net)	11,859	10,828
silver — ounces (net)	97,239	95,700

TOTAL OPERATING COSTS PER TON MILLED

Mining	\$ 9.98	\$ 8.74
Development	1.80	5.11
Milling	7.64	5.59
Mine general	3.04	3.38
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	\$ 22.46	\$ 22.82

ORE RESERVES

	Ming		Ming X		TOTAL	
As at December 31	1977	1976	1977	1976	1977	1976
Vertical depth — feet	1,700	1,700	2,000	2,000	2,000	2,000
Reserves — tons	376,000	492,000	117,000	228,000	493,000	720,000
Grade % copper	4.18	4.41	5.18	5.86	4.42	4.88
Grade oz. gold/ton	0.07	0.07	0.10	0.13	0.08	0.09
Grade oz. silver/ton	0.58	0.47	0.81	0.94	0.63	0.62

Ore reserves for the Ming Mine are calculated from surface to the boundary of the property, nominally 1700 ft. For the Mining Extension property, they are calculated from the boundary to 2000 ft.

MING MINE DEVELOPMENT

	1977	1976
Main ramp advance — ft.	549	415
Drifting and crosscutting — ft.	463	807
Raising — ft.	31	—
Diamond drilling — ft.	2,891	3,077

MING EXTENSION DEVELOPMENT

Main ramp advance — ft.	872	709
Drifting and crosscutting — ft.	1,186	1,539
Raising — ft.	—	—
Diamond drilling — ft.	7,028	6,926

MINING

Mining at the start of the year was generally confined to a clean-up in preparation for the proposed shut-down on February 11, 1977. After the decision to continue and increase operations, crews were re-hired and production increased gradually. By May, the operation reached 1,200 tons per day. Stopping and development continued on a normal basis throughout the rest of the year, except that development was curtailed in the last quarter. By year end, all mining was completed on the 1,200 level and ore production was confined to 1,300, 1,400, 1,500, 1,800 and 1,900 foot levels. An exploration crosscut and drift was driven into the hanging wall at the 2,000 foot level in order to diamond drill to the 2,100 and 2,200 foot levels. Drilling was not completed by year end but preliminary results are being assessed. There is a marked decrease in the true thickness of the massive sulphides on the 1,500 foot level and those levels which have been developed below this horizon.

Deep diamond drilling into the footwall of the Ming orebody was done during the year. An interesting mineralized zone was intersected at approximately 400 feet, but the grade is not sufficient to support mining.

Productivity in the mine was excellent considering the method of mining which has to be used in this low dipping orebody.

MILLING

A new production record was established during 1977, despite the metallurgical problems associated with the mercury content of the ore. During the final quarter, metallurgy had improved considerably and the amount of zinc (mercury) in the concentrate had been reduced to acceptable levels. Cleaner and filter capacities were increased to improve the concentrate grade and reduce its moisture content.

Many changes were made during the year in the flowsheet and the reagents used. During the final quarter, a reasonable circuit stability level was achieved, and the circuits organized to maximize copper production in the roughers and cleaners while minimizing the flotation of sphalerite. Additional improvements in the mill are planned for early in the new year which are expected to further increase the metal recoveries and concentrate grade.

EXPLORATION

Geochemical and geophysical surveys were carried out on the 94 claim group in the Gullpond area, five miles south of the Rambler plant. The detection of mineralized boulders, together with certain anomalous geochemical areas, suggests the necessity of further exploratory work, which is planned for 1978.

GENERAL

The resumption of full scale operation substantially reduced the cost per ton ore milled.

Contract negotiations were completed with both Locals 7190 and 8484 of the United Steelworkers of America. Agreement was reached for a roll-in of the COLA and a 5c increase across the board.

All operations were shut down on July 5th to replace a collapsed ore bin. No production time was lost as the bin was rebuilt during the three week vacation period.

In April, the Company was awarded the Regional John T. Ryan Trophy for the lowest accident frequency among metalliferous mines in the Quebec and Eastern region during 1976. It is particularly significant in that it is the first time that the trophy has been awarded to a Newfoundland mining property, and that it has taken three years to accumulate the one million man hours required to qualify.

Once again, it is a pleasure to acknowledge the support of the Officers and Directors of the Company, together with the mine staff and employees during another difficult year.

Respectfully submitted,

J. E. GRAINGER, B.Sc., P. Eng.

Mine Manager

January 23, 1978

Balance Sheet

ASSETS

	1977 \$	1976 \$
CURRENT ASSETS		
Settlements receivable (net) from sale of copper concentrate (note 3)	5,501,766	4,051,862
Concentrate inventory	—	940,688
Accounts receivable (note 3)	5,926	52,568
Prepaid expenses	51,813	84,125
	<u>5,559,505</u>	<u>5,129,243</u>
FIXED ASSETS		
Buildings, surface structures and equipment — at cost	8,393,861	8,054,991
Less: Accumulated depreciation	<u>6,246,315</u>	<u>5,201,322</u>
	2,147,546	2,853,669
Mining property — at cost less accumulated amortization of \$4,543,600 (1976 - \$4,238,300) (note 4)	834,117	1,139,416
	<u>2,981,663</u>	<u>3,993,085</u>
DEFERRED EXPENDITURES		
Mine development expense — at cost less accumulated amortization of \$1,058,251 (1976 - \$440,051)	1,266,089	1,884,289
Materials and supplies — at cost	1,267,615	1,266,124
	<u>2,533,704</u>	<u>3,150,413</u>
	<u>11,074,872</u>	<u>12,272,741</u>

Signed on behalf of the Board

L. McC. RITCHIE, Director

D. A. MACFARLANE, Director

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December 31, 1977

LIABILITIES

	1977 \$	1976 \$
CURRENT LIABILITIES		
Bank advances (note 3)	796,136	2,181,398
Accounts payable and accrued liabilities	598,061	561,837
Current instalment on purchase price of mining property	593,230	60,640
Mining tax payable	201,900	73,900
Accrual under participation agreement	36,000	—
	<u>2,225,327</u>	<u>2,877,775</u>
BALANCE OF PURCHASE PRICE OF MINING PROPERTY		
(less current instalments) (note 4)	642,131	1,239,360
	<u>2,867,458</u>	<u>4,117,135</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized — 5,000,000 shares of \$1 par value		
Issued —		
2,980,006	2,980,006	2,980,006
Less: Discount thereon	965,000	965,000
	<u>2,015,006</u>	<u>2,015,006</u>
CONTRIBUTED SURPLUS	14,625	14,625
RETAINED EARNINGS	6,177,783	6,125,975
	<u>8,207,414</u>	<u>8,155,606</u>
	<u>11,074,872</u>	<u>12,272,741</u>

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended December 31, 1977

	1977 \$	1976 \$
REVENUE FROM CONCENTRATE PRODUCTION	8,874,190	7,723,545
Less: Marketing expenses	574,394	661,801
	8,299,796	7,061,744
OPERATING EXPENSES	5,626,832	4,845,103
EARNINGS BEFORE THE UNDERNOTED ITEMS	2,672,964	2,216,641
Depreciation of fixed assets	1,046,200	877,400
Amortization of mine development expenses and mining property	923,500	836,551
Exploration	89,017	170,934
Mining tax	186,000	22,000
Interest on advances and bank loans	236,826	388,100
Interest on long-term debt	103,613	17,300
Allocation under participation agreement (Note 2)	36,000	—
	2,621,156	2,312,285
NET EARNINGS (LOSS) FOR THE YEAR (Note 2)	51,808	(95,644)
RETAINED EARNINGS — BEGINNING OF YEAR	6,125,975	6,221,619
RETAINED EARNINGS — END OF YEAR	6,177,783	6,125,975
EARNING (LOSS) PER SHARE (Note 2)02	(.03)

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1977

	1977 \$	1976 \$
SOURCE OF WORKING CAPITAL		
From operations	2,022,638	1,741,822
USE OF WORKING CAPITAL		
Transfer of mortgage principal from long-term debt to current liabilities	597,229	60,640
Buildings and equipment	341,208	264,452
Mine development expenses	—	251,707
Increase in materials and supplies	1,491	78,899
	939,928	655,698
INCREASE IN WORKING CAPITAL	1,082,710	1,086,124
WORKING CAPITAL — BEGINNING OF YEAR	2,251,468	1,165,344
WORKING CAPITAL — END OF YEAR	3,334,178	2,251,468

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1977

1. SIGNIFICANT ACCOUNTING POLICIES

Settlements receivable —

Settlements receivable are shown at estimated realizable value less advances of \$3,369,817 (1976 - \$2,042,000). In accordance with terms of the sales contract, final settlements are made at prices prevailing at a future date and the amounts eventually received may vary from the amounts shown as settlements receivable at December 31, 1977.

DEPRECIATION AND AMORTIZATION —

Depreciation and amortization of fixed assets are on the unit of production method on a basis of the estimated ore reserves.

Mine development expenses are being amortized on the unit of production method on a basis of the estimated ore reserves.

2. PARTICIPATION AGREEMENT

Under a participation agreement between the Corporation, the Carroll Prospector Group ("Carroll") and Advocate Mines Limited ("Advocate"), the Corporation is extracting ore from a property known as the Ming Extension which adjoins the Corporation's Ming Mine. The agreement provides for the Corporation to pay to Carroll and Advocate 10% of the profits therefrom until its exploration and preproduction costs have been recovered and therefore 55% of the profits.

Management calculates that on an accrual basis as reflected in the financial statements, there is an amount of \$36,000 due to the Carroll and Advocate participants at December 31, 1977. However, on a cash basis as contained in the agreement, no amount is payable at that date and the actual amount to be paid will depend on prices and costs prevailing at a future date.

3. SECURITY FOR BANK ADVANCES

Bank advances are secured by a general assignment of book debts.

4. BALANCE OF PURCHASE PRICE OF MINING PROPERTY

The principal balance of \$1,235,361 due under the 8% mortgage on the Corporation's mining property is payable in eight equal quarterly amounts of principal and interest, the next of which is due on January 29, 1978.

5. INCOME TAXES

The application of certain Income Tax Regulations for the year 1977 results in no federal income tax liability for the current year.

In prior years the Corporation recorded depreciation and amortization in its accounts but did not claim all of the relative allowances for income tax purposes. Accumulated allowances unclaimed for tax purposes are approximately \$5,300,000 (1976 - \$5,300,000).

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total direct remuneration paid during 1977 to directors was \$3,300 and to senior officers (as defined in the Ontario Business Corporations Act to include the five highest paid employees of the Corporation) was \$123,384.

7. ANTI-INFLATION ACT

As the Corporation's shares are listed on the Toronto Stock Exchange, it is subject to part 3 of the Anti-Inflation Act Regulations respecting dividends.

8. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in 1977.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Consolidated Rambler Mines Limited as at December 31, 1977 and the statements of earnings, retained earnings and changes in financial positions for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND

Chartered Accountants

February 10, 1978

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Production during the first six months of 1977 has been as follows:

	1977	1976
Tons milled	109,336	142,196
% Copper	4.08	3.35
Oz. gold per ton	0.069	0.074
Oz. silver per ton	0.649	0.603

During the period, a great deal of work was done on metallurgical research, both in the laboratory and in the plant. The objective was to produce a higher grade copper concentrate at acceptable recoveries with a low zinc and mercury content. The acid roughing and cleaning circuit had been producing a low grade concentrate. An alkaline (lime) roughing and acid cleaning circuit appeared to be the better since it produced a high grade copper concentrate with potential to depress the zinc to acceptable levels.

Mining

The ore on the 1900 level has been developed and shows a length north of the 100 ft. wide dyke of 490 ft. with a true width of 7 ft. and an average grade of 6.9% copper. South of the dyke there is a 225 ft. length of mineralization with an average width of 3.6 ft. averaging 4.3% copper. On the bottom 1985 level, the ore has been developed for a length of 160 ft. showing an average width of 6 ft. and an average grade of 4.52% copper. Main ramps were developed at satisfactory rates both below the 1400 level and above the 1800 level. An exploration crosscut into the hanging wall was started on the 1985 level to diamond drill below that level.

Underground drilling into the footwall of the Ming Mine has been carried out during the current period. This drilling has intersected a mineralized schist containing some copper, gold and silver values but the concentration of these minerals is not such as to constitute ore.

L. McC. RITCHIE,
President

Saint John, N. B.
Sept. 15, 1977

CONSOLIDATED RAMBLER MINES LIMITED

INTERIM REPORT TO SHAREHOLDERS

Six months ended June 30, 1977

CONSOLIDATED RAMBLER MINES LIMITED

P. O. BOX 937, SAINT JOHN, N.B. E2L 4E3

INTERIM REPORT TO SHAREHOLDERS

Six Months Ended June 30, 1977

STATEMENT OF EARNINGS (Subject to audit)

	1977	1975 (Restated)
Revenue from concentrate production at estimated realizable value	\$ 3,625,539	\$ 4,530,360
Deduct operating costs	2,649,687	2,845,587
Operating profit before the undernoted items	975,852	1,684,773
Depreciation and amortization	911,500	1,217,663
Interest and mining taxes	150,443	213,334
	1,061,943	1,430,997
Net earnings (loss) for the period (before Federal income taxes)	\$ (86,091)	\$ 253,776
Earnings (loss) per share	(2.9) c	8.5 c

STATEMENT OF CHANGES IN FINANCIAL POSITION (Subject to audit)

Source of working capital:		
From operations	\$ 825,409	\$ 1,471,439
Reduction in supplies inventory	66,121	—
	891,530	1,471,439
Use of working capital:		
Additions to fixed assets and mine development	180,671	484,605
Long-term debt transferred to current liabilities	394,572	—
Increase in supplies inventory	—	142,683
	575,243	627,288
Increase in working capital	316,287	844,151
Working capital (deficit) at beginning of year	2,286,952	(134,656)
Working capital at end of period	\$ 2,603,239	\$ 709,495

Operations for the six months ended June 30, 1977 resulted in a net loss of \$86,091 (2.9c per share) compared with a restated profit of \$253,776 (8.5c per share) in the previous year. The current period's loss has been arrived at based on using a value of 58.3c per lb. for copper contained in concentrate. Reductions in the price for copper since June 30, 1977 have resulted in the management of our corporation adopting the view that near term operating conditions are bleak.

Your management is continuing to exert its efforts to deal with the problem of impurities in the concentrate produced from our ores and the marketing of this concentrate. A portion of our 1977 production has been rejected for processing at the Gaspé smelter of Noranda Mines Limited and has been, in part, sold overseas. Unless a satisfactory combination of costs, metallurgical recoveries and marketing arrangements can be worked out in the immediate future, the continued operation of the Rambler mine is in jeopardy.